

Message Text

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14

ACTION EA-06

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INFO AMEMBASSY ABU DHABI

AMEMBASSY CARACAS

AMEMBASSY DOHA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LAGOS

AMEMBASSY LIBREVILLE

AMEMBASSY QUITO

AMEMBASSY SINGAPORE

AMEMBASSY TEHRAN

AMEMBASSY TOKYO

AMEMBASSY TRIPOLI

AMEMBASSY LONDON

AMEMBASSY PARIS

USINT BAGHDAD

AMCONSUL HONG KONG

AMCONSUL MEDAN

AMCONSUL SURABAYA

C O N F I D E N T I A L JAKARTA 9624

LIMDIS

HONG KONG PASS TREASURY REP

EO 11652: GDS

TAGS: ENRG ID

SUBJECT: GOI-OIL COMPANY DISCUSSIONS

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REF: (A) JAKARTA 9255 (NOTAL), (B) JAKARTA 9166 (NOTAL)

1. SUMMARY: PRESIDENT SUHARTO HAS PUBLICLY SET JULY 31 AS DEADLINE FOR COMPLETION OF NEGOTIATIONS WITH OIL COMPANIES OPERATING UNDER PRODUCTION-SHARING AGREEMENTS. MAJOR SPLIT WITHIN GOVERNMENT APPEARS TO HAVE DEVELOPED BETWEEN OIL SIDE OF GOI WHICH FAVORS GREATER FLEXIBILITY IN GOI'S NEGOTIATING GUIDELINES AND FINANCE/PLANNING BOARD "HAWKS" WHO ARE MOTIVATED BY NEED FOR IMMEDIATE INCREASE IN GOI REVENUES. COMPANIES HAVE BEEN CONVOKED BY PERTAMINA PRESIDENT HARYONO FOR MEETINGS JULY 23; THEY ANTICIPATE GOI WILL PRESENT THEM WITH FINAL PACKAGE WHICH WILL HEW CLOSELY TO GOVERNMENT'S ORIGINAL POSITION. END SUMMARY.

2. LOCAL DAILIES OF JULY 22 GIVE FRONT PAGE TREATMENT TO PERTAMINA PRESIDENT HARYONO'S REMARKS FOLLOWING HIS JULY 21 CALL ON PRESIDENT SUHARTO FOR DISCUSSIONS RELATED TO CURRENT OIL NEGOTIATIONS. HARYONO WAS ACCOMPANIED BY MINESMIN SADLI, MINISTER OF NATIONAL PLANNING WIDJOJO, AND MINISTER OF TRADE RADIUS PRAWIRO. HARYONO TOLD PRESS AFTER MEETING THAT PRESIDENT HAD INSTRUCTED HIM TO WRAP UP CURRENT DISCUSSIONS NO LATER THAN JULY 31. PRESIDENT TOLD HARYONO HE WANTED "EARLY" CONCLUSION OF TIME-CONSUMING NEGOTIATIONS. HARYONO INDICATED HE HAD RECEIVED "STRICT DIRECTIVES" FROM PRESIDENT ON HOW TO PROCEED; HE REPLIED NEGATIVELY TO QUESTION ABOUT POSSIBLE CHANGES IN GOI NEGOTIATING STANCE. HARYONO WAS QUOTED AS STATING THAT THERE WAS NO ACTUAL DEADLOCK; HOWEVER, HE SAID FOREIGN CONTRACTORS ARE NOT YET WILLING TO YIELD TO INDONESIA'S WISHES.

3. COMPANIES HAVE BEEN SUMMONED TO MEET WITH HARYONO IN SEPARATE SESSIONS BEGINNING JULY 23. SURVEY OF COMPANIES, WHO HAVE DONE THEIR OWN CHECKING, REVEALS MOST EXPECT GOVERNMENT WILL STICK TO ORIGINAL GUIDELINES WITH POSSIBLE MODIFICATIONS IN DEPRECIATION SCHEDULE. IT IS BELIEVED 85/15 PROFIT IN FAVOR OF GOI WILL REMAIN AS WELL AS RETROACTIVITY TO JANUARY 1, 1976. COMPANIES ARE NOW PREPARING CALCULATIONS TO "LIMIT THE DAMAGE" AS MUCH AS POSSIBLE IN ANTICIPATION THAT GOI WILL NOT MOVE MUCH FROM ORIGINAL POSITION.

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4. THERE HAS BEEN MUCH BEHIND-SCENE ACTIVITY PAST TWO WEEKS WITHIN GOI IN EFFORT BY DEPARTMENT OF MINING AND PERTAMINA TO OBTAIN GREATER FLEXIBILITY IN NEGOTIATIONS. NOTICEABLE SPLIT HAS DEVELOPED BETWEEN OIL SIDE OF GOI ON ONE SIDE AND FINANCE/BAPPENAS (NATIONAL PLANNING BOARD) ON OTHER. FORMER HAS ARGUED THAT CURRENT GOI GUIDELINES WILL DISCOURAGE FUTURE OIL EXPLORATION AND PRODUCTION EXPENDITURES AND WILL HAVE ADVERSE IMPACT ON INVESTMENT

CLIMATE. LATTER GROUP, REFERRED TO AS "HAWKS" ON THIS ISSUE, BELIEVE IMMEDIATE REVENUE INCREASE SHOULD BE GOI'S CHIEF CONCERN AND FEEL SCREWS ON COMPANIES SHOULD BE TIGHTENED.

5. CONVERSATION WITH AIDE CLOSE TO MINESMIN SADLI INDICATES VIEWS OF FINANCE CAMP HAVE APPARENTLY PREVAILED. GOVERNMENT HELD LENGTHY STRATEGY SESSION JULY 19 AT WHICH TIME MINING AND PERTAMINA OFFICIALS MADE LAST-CHANCE PLEA FOR MORE "ELBOW ROOM" AS ONE PARTICIPANT PUT IT. PERTAMINA PRESENTED MEMORANDUM TO GOVERNMENT SUMMARIZING NEGOTIATIONS AND COMPANIES' COUNTER PROPOSALS. (COMMENT: EMBASSY UNDERSTANDS THAT THESE OFFERS WOULD CUMULATIVELY PROVIDE GOI WITH ADDITIONAL \$109 MILLION IN REVENUE FOR 1976. END COMMENT). OIL SIDE WAS REBUFFED; ONE OF CHIEF NEGOTIATORS INDICATED HE AND PERTAMINA PRESIDENT HARYONO WERE NOW "IN A VERY DIFFICULT POSITION." SOURCE SAID HE WAS VERY WEARY FROM "TWO-WAY NEGOTIATIONS" AND HAD ASKED SADLI TO BE RELIEVED FROM PRODUCTION-SHARING NEGOTIATIONS.

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